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1997

ANNUAL REPORT

CANADIANA

JUN 9 1998



Credit Union
Deposit Guarantee
Corporation

Alberta

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Deposit Guarantee Statement

The Credit Union Deposit Guarantee Corporation guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. Additionally, the Credit Union Act provides that the Government of Alberta will ensure that this obligation of the Corporation is carried out.

For more information contact:

Credit Union Deposit Guarantee Corporation
2340 Manulife Place
10180 - 101 Street
Edmonton, Alberta T5J 3S4
Phone (403) 428-6680
Fax (403) 428-7571

Vision

Financially strong and stable
Alberta credit unions with
cost effective protection for depositors.

Mission

To ensure sound business practices
in Alberta credit unions and
guarantee deposits according to legislation.

Primary Role

- ▶ Provide a 100% guarantee of deposits held with Alberta credit unions.
- ▶ Assist, advise, and, where necessary, direct credit unions to ensure sound business practices are maintained.
- ▶ Monitor and regulate credit union performance and act quickly to improve credit union results and minimize risk to the credit union system and the Corporation.

Corporate Philosophy

HOW WE CONDUCT OUR BUSINESS

We will maintain self-sufficiency with respect to the 100% deposit guarantee. We will operate efficiently and effectively in achieving our goals.

We recognize each credit union is an autonomous unit and unique in its operations. We will ensure sound business practices are maintained in Alberta credit unions. We will provide coaching to Alberta credit unions' boards and management to improve their skills and where unsound practices are identified, we will work with the credit union to eliminate potential risk to the Deposit Guarantee Fund. In extraordinary circumstances, we will impose legislated sanctions resulting in a loss of credit union autonomy. When sanctions are imposed, we will work diligently with the credit union to correct deficiencies and return autonomy as soon as possible.

We will maintain open communication with Alberta Treasury, Credit Union Central of Alberta and the credit union system to ensure a common understanding of each other's role.

HOW WE TREAT OUR EMPLOYEES

- ▶ We treat our employees with respect.
- ▶ We compensate our employees fairly, within any guidelines provided by the Government of Alberta. We will provide our employees with competitive benefits.
- ▶ We believe that the ongoing training/education of our employees is an investment in the organization and their future.



Chair's Message

1997 Goals and Achievements

During the year, the Corporation focused on the importance of credit unions meeting the capital adequacy requirements by October 31, 1999. Specific action plans will be requested from those credit unions which may not reach the legislated targets. Any credit union not meeting the capital requirements by October 31, 1999, will be placed under the supervision of the Corporation until it complies with the legislation. As at October 31, 1997, total consolidated credit union capital exceeded the requirements and individually, 81% (1996: 71%) of credit unions met the capital levels required. This will remain a key area of focus for the next two years.

The Corporation's dual role of providing a deposit guarantee and being the loan approval authority for Alberta credit unions presents unique challenges. Our goal was to distribute new Corporation Lending Guidelines in 1997. These have been delayed as we have been working with a group of representatives from the credit union system to receive additional input on the changes. These consultative efforts should result in more acceptance and understanding of the new Lending Guidelines by credit unions. Our revised target is to complete these meetings and distribute the new guidelines by June 1998.

All Corporate Policies were reviewed and many were deleted as they reflected requirements which are already stated in legislation. New policies were developed that more closely tie into the functional areas of the Corporation. A Code of Conduct and Ethics Policy for Directors and Employees was developed during 1997. These policies were shared with all credit unions. Credit unions were encouraged to revise or confirm their existing policies in this

area in order to comply with the Sound Business Practices Handbook section on Business Ethics.

Board of Directors

The Lieutenant Governor in Council of Alberta appoints the Corporation's seven member Board of Directors. Elvin Christenson's term expired during the year. He was on the Board for thirteen years, most of them as Chair and deserves special recognition for his significant contributions. David Hancock, recently elected as a Member of the Legislative Assembly of the Province, resigned as director and Vice Chair. He deserves to be recognized as well for his many contributions to the Corporation. Both of these directors were thanked for their very committed efforts on behalf of the Corporation and wished well in their future endeavours. Mary Arnold was appointed Vice Chair and I was appointed Chair of the Board of Directors. We welcomed two new directors, Ron Gilmore and Rod McDermid to the Board.

I want to publicly extend thanks to all of the Board members for their commitment and diligence in fulfilling their responsibilities during the past year.

The new Board of Directors is committed to continued effective corporate governance. In this regard, each committee developed its own terms of reference. These terms of reference were approved by the Board and are summarized in this annual report. Further work will be done in 1998 to formalize the corporate governance process.

I also want to extend the Board's appreciation to the Corporation's employees for their ongoing efforts in achieving the goals of the

Chair's Message

Corporation. We are pleased that we were able to recognize their achievements, with the discontinuation of the salary freeze on government and provincial corporation employees this year. This enabled the Corporation to put in place a formalized compensation management program.

1998 Goals

As we look ahead to 1998, additional work is required to finalize our key performance measures to ensure that they are appropriate and accurate measures of performance. It is our intention to publish these performance measures next year when they will become a regular part of our annual report.

Our goals include maximizing the number of credit unions which will achieve the legislated capital requirements. Our target is to have 95% of all credit unions meeting the requirement by the end of 1998.

Another key goal is to achieve a common understanding of our role through proactive communication. To accomplish this, we will be developing a formal communication plan and reviewing our respective roles with Alberta Treasury and Credit Union Central. Later in the

year, we plan to distribute another survey to credit unions to assess their understanding of our role and their rating of our performance.

With the increasing competitive pressures and technological expenditures facing all financial institutions, the Corporation's objective is to strengthen strategic advisory services for credit unions. We will be working closely with Credit Union Central and credit unions to ensure these advisory services are provided so that Alberta credit unions can successfully compete into the next century.

Another major goal is to ensure a regulatory environment which is both flexible and secure. We will recommend and provide comments on legislative amendments to the Credit Union Act to improve the regulatory environment for credit unions while continuing to provide the necessary protection to depositors.

We have many challenges ahead of us to prepare for the next millennium and our key areas of focus will be capital adequacy and the ability to deal with the ongoing competitive pressures and technological changes, including compliance with the year 2000 issue. The Corporation is looking forward to addressing these challenges in the upcoming year.

Bob Splane
Chair, Board of Directors



1997 Goals

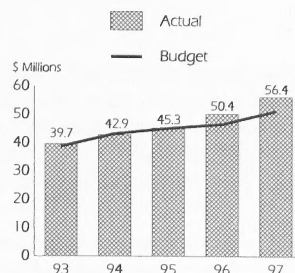
Achievements

1.	An effective system to ensure sound business practices are implemented and maintained in Alberta credit unions.	<ul style="list-style-type: none">▶ Tested use of self-assessment questionnaires and delayed implementation of this approach.▶ Continued to review compliance with sound business practices in examinations conducted at credit unions.																																				
2.	Effective systems to ensure concerns relating to credit unions are promptly identified and addressed.	<ul style="list-style-type: none">▶ Finalized a risk-rated approach to scheduling examinations.▶ Conducted examinations/reviews of credit unions, as follows:<table><tr><td></td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td># of credit unions</td><td>5*</td><td>40</td><td>26</td><td>30</td><td>31</td></tr></table><p>* Examination function transferred from Alberta Treasury to CUDGC during the year.</p>		93	94	95	96	97	# of credit unions	5*	40	26	30	31																								
	93	94	95	96	97																																	
# of credit unions	5*	40	26	30	31																																	
3.	A framework for increasing the autonomy of credit unions.	<ul style="list-style-type: none">▶ Reviewed and increased selected credit union lending limits.<table><tr><td></td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td>% of loans reviewed by CUDGC out of total loans processed by all credit unions for the year</td><td>2.8%</td><td>3.0%</td><td>2.6%</td><td>2.4%</td><td>2.6%</td></tr><tr><td>% of loans reviewed by CUDGC that were declined</td><td>3.4%</td><td>3.5%</td><td>2.6%</td><td>2.7%</td><td>3.4%</td></tr></table>▶ # of supervised credit unions<table><tr><td></td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td></td><td>30</td><td>25</td><td>24</td><td>22</td><td>22</td></tr></table>		93	94	95	96	97	% of loans reviewed by CUDGC out of total loans processed by all credit unions for the year	2.8%	3.0%	2.6%	2.4%	2.6%	% of loans reviewed by CUDGC that were declined	3.4%	3.5%	2.6%	2.7%	3.4%		93	94	95	96	97		30	25	24	22	22						
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	30	25	24	22	22																																	
4.	Self-sufficiency with respect to the 100% deposit guarantee. (minimum target for Equity in Deposit Guarantee Fund = 1.00% of total credit union assets)	<ul style="list-style-type: none">▶ % of credit unions meeting capital adequacy<table><tr><td></td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td></td><td>*</td><td>*</td><td>71%</td><td>71%</td><td>81%</td></tr></table><p>* figures not available as prior to revised capital adequacy legislation.</p>▶ Equity in Deposit Guarantee Fund as % of total credit union assets<table><tr><td></td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td></td><td>1.06</td><td>1.11</td><td>1.11</td><td>1.12</td><td>1.18</td></tr></table>		93	94	95	96	97		*	*	71%	71%	81%		93	94	95	96	97		1.06	1.11	1.11	1.12	1.18												
	93	94	95	96	97																																	
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	1.06	1.11	1.11	1.12	1.18																																	
5.	Operate efficiently and effectively in achieving goals.	<ul style="list-style-type: none">▶ Assessment rate (effective Nov. 1) on deposits and borrowings<table><tr><td></td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td></td><td>.25</td><td>.19</td><td>.19</td><td>.19</td><td>.18</td></tr></table>▶ Administration expense Actual (\$ millions)<table><tr><td></td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td></td><td>3.1</td><td>3.5</td><td>2.9</td><td>2.4</td><td>2.6</td></tr></table> Budgeted (\$ millions)<table><tr><td></td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td></td><td>3.6</td><td>3.9</td><td>3.4</td><td>3.0</td><td>3.0</td></tr></table>		93	94	95	96	97		.25	.19	.19	.19	.18		93	94	95	96	97		3.1	3.5	2.9	2.4	2.6		93	94	95	96	97		3.6	3.9	3.4	3.0	3.0
	93	94	95	96	97																																	
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Financial Summary

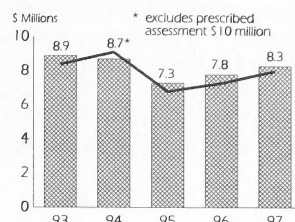
1. **Deposit Guarantee Fund - Equity**

- ▶ Available to provide the second level of deposit protection for members of Alberta credit unions. Credit unions provide the first level with adequate capital.
- ▶ The Fund's equity level exceeded budget because of improved investment revenue and net income for 1997.



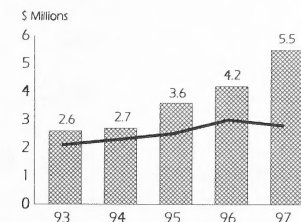
2. **Deposit Guarantee Fund - Assessment Revenue**

- ▶ Assessment revenue increased because of the growth in the assessment base (deposits and borrowings) for all credit unions.
- ▶ The increased assessment revenue is offset by the reduced assessment rate charged to credit unions (from .19 to .18) effective November 1, 1997.



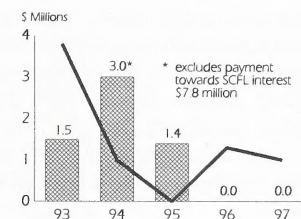
3. **Deposit Guarantee Fund - Investment Revenue**

- ▶ Investment revenue exceeded budget as a result of gains realized from the trading of investments.
- ▶ The use of contract investment management and a revised investment policy contributed to the improved investment revenue.



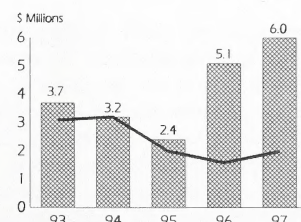
4. **Deposit Guarantee Fund - Financial Assistance**

- ▶ The budgeted financial assistance to credit unions was not required.



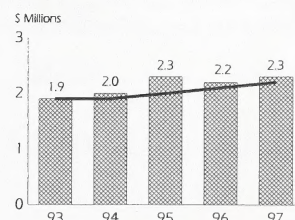
5. **Deposit Guarantee Fund - Net Income**

- ▶ Net income exceeded budget because:
 - gains were realized from the trading of investments.
 - the provision for financial assistance was not required.
 - administration expenses were lower than expected.



6. **Master Bond Fund - Equity**

- ▶ Available to offset losses above credit union deductible for operational or business risks covered such as fidelity, robbery, forgery, plastic card claims and below the Fund deductible on director's liability claims.
- ▶ The Fund's equity is being maintained as target level (\$2.2 million) has been achieved.



Management's Responsibility

The management of the Credit Union Deposit Guarantee Corporation prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to generally accepted accounting principles.

Management maintains the necessary accounting and internal control systems designed to ensure: the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use, and the promotion of operational efficiency. The Audit Committee has implemented a plan to review internal controls as deemed appropriate for the Corporation. The Board of Directors,

acting through its Audit Committee, oversees management's responsibilities for the financial reporting and internal control systems.

The financial statements have been reviewed by the Audit Committee and have been approved by the Board of Directors. In addition, the financial statements have been examined by the Auditor General, whose report is included hereafter.

J. Laitner
Chief Executive Officer

E. Friedrich, CA
Chief Financial Officer

March 3, 1998

Auditor's Report

To the Directors of the
Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 1997 and the statements of income and equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

 FCA
Auditor General

Edmonton, Alberta
February 20, 1998

Balance Sheet

December 31, 1997
(thousands of dollars)

	1997	(restated) 1996
		(Note 3)
<u>ASSETS</u>		
Cash	\$ 944	\$ 3,237
Investments (Note 5)	67,348	58,355
Accrued interest receivable	459	526
Due from credit unions	1,451	1,395
Loans receivable	483	574
Prepaid expenses	546	513
Capital assets (Note 4)	<u>110</u>	<u>121</u>
	\$ <u>71,341</u>	\$ <u>64,721</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 954	\$ 474
Accrual for financial assistance (Note 6)	5,865	6,100
Deferred revenue	928	912
Amounts due to and investment in S C Financial Ltd. (Note 8)	<u>4,892</u>	<u>4,630</u>
	<u>12,639</u>	<u>12,116</u>
Commitments and Contingencies (Note 9)		
<u>EQUITY</u>		
Deposit Guarantee Fund	56,400	50,392
Master Bond Fund (Note 3)	<u>2,302</u>	<u>2,213</u>
	<u>58,702</u>	<u>52,605</u>
	\$ <u>71,341</u>	\$ <u>64,721</u>

The accompanying notes and schedules are part of these financial statements.

Statements of Income and Equity

For The Year Ended December 31, 1997
(thousands of dollars)

	1997	1997	(restated) 1996
	Budget	Actual	Actual
			(Note 3)
DEPOSIT GUARANTEE FUND			
Revenue:			
Interest	\$ 2,819	\$ 5,479	\$ 4,202
Deposit guarantee assessments	8,009	8,295	7,816
Recovery of special assistance (Note 7)	<u>74</u>	<u>90</u>	<u>67</u>
	<u>10,902</u>	<u>13,864</u>	<u>12,085</u>
Expense:			
Interest and bank charges	30	25	26
Provision for (recovery of) financial assistance	1,021	(257)	(26)
Special contribution	4,915	4,912	4,652
Administration (Schedule 1)	<u>2,956</u>	<u>2,580</u>	<u>2,369</u>
	<u>8,922</u>	<u>7,260</u>	<u>7,021</u>
Income before income taxes	1,980	6,604	5,064
Income taxes (Note 10)	<u>-</u>	<u>596</u>	<u>-</u>
Net income for the year	1,980	6,008	5,064
Equity at beginning of year	<u>49,426</u>	<u>50,392</u>	<u>45,328</u>
Equity at end of year	\$ <u>51,406</u>	\$ <u>56,400</u>	\$ <u>50,392</u>
MASTER BOND FUND			
Revenue:			
Assessments	\$ 790	\$ 530	\$ 603
Interest	<u>115</u>	<u>98</u>	<u>143</u>
	<u>905</u>	<u>628</u>	<u>746</u>
Expense:			
Bond premium	542	463	466
Administration	150	150	175
Claims	<u>209</u>	<u>(74)</u>	<u>33</u>
	<u>901</u>	<u>539</u>	<u>674</u>
Net income for the year	4	89	72
Equity at beginning of year (Note 3)	<u>2,154</u>	<u>2,213</u>	<u>2,141</u>
Equity at end of year	\$ <u>2,158</u>	\$ <u>2,302</u>	\$ <u>2,213</u>

Statement of Changes in Financial Position

For the Year Ended December 31, 1997
(thousands of dollars)

	1997	1997	(restated) 1996
	Budget	Actual	Actual
			(Note 3)
OPERATING ACTIVITIES			
Net income for the year:			
Deposit Guarantee Fund	\$ 1,980	\$ 6,008	\$ 5,064
Master Bond Fund	4	89	72
Items not involving cash:			
Amortization	68	43	46
Loss (gain) on disposal of capital assets	-	-	(1)
Amortization of deferred items	<u>(159)</u>	<u>16</u>	<u>(40)</u>
	<u>1,893</u>	<u>6,156</u>	<u>5,141</u>
Changes in non-cash balances relating to operating activities:			
Accrual for financial assistance	(17)	(235)	(17)
Prepaid expenses	-	(34)	21
Loans and accrued interest, net of provisions	60	91	173
Due to S C Financial Ltd.:			
Special contribution	278	262	337
Recovery of special assistance	(4)	-	19
Amount due from credit unions	8	(56)	129
Payables and deferred revenue	<u>194</u>	<u>481</u>	<u>(261)</u>
	<u>519</u>	<u>509</u>	<u>401</u>
Operating investment activities:			
Investment in marketable securities and accrued interest	<u>(2,329)</u>	<u>(8,926)</u>	<u>(3,846)</u>
Cash provided by (used in) operating activities	<u>83</u>	<u>(2,261)</u>	<u>1,696</u>
CAPITAL INVESTMENT ACTIVITIES			
Purchase of capital assets	(83)	(48)	(30)
Proceeds on disposal of capital assets	<u>-</u>	<u>16</u>	<u>5</u>
Cash used in capital investment activities	<u>(83)</u>	<u>(32)</u>	<u>(25)</u>
INCREASE (DECREASE) IN CASH	-	(2,293)	1,671
CASH, BEGINNING OF YEAR	<u>235</u>	<u>3,237</u>	<u>1,566</u>
CASH, END OF YEAR	\$ <u>235</u>	\$ <u>944</u>	\$ <u>3,237</u>

Notes to the Financial Statements

December 31, 1997

Note 1 Authority and Purpose

The Credit Union Deposit Guarantee Corporation (the "Corporation"), operates under the authority of the Credit Union Act, Chapter C-31.1, Statutes of Alberta, 1989, as amended. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The Credit Union Act provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 1997 credit unions in Alberta held deposits totalling \$4,424,265,000. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

In 1986, S C Financial Ltd. was incorporated under the Alberta Business Corporations Act for the purpose of providing \$335,000,000 of deficit financing assistance to credit unions under supervision. All of the outstanding shares are held by the Corporation (Notes 2(c) and 8). Although the Corporation guarantees the interest on the S C Financial Ltd. debentures issued in exchange for Stabilization Preferred Shares of the credit unions, the interest is funded by the Province pursuant to its indemnification. Accordingly, the obligation of the Corporation pursuant to its guarantee is not reflected in these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements have been prepared in accordance with generally accepted accounting principles.

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The Deposit Guarantee Fund enables the Corporation to guarantee the repayment of all deposits with credit unions, its primary objective. The Deposit Guarantee Fund's statement of income includes assessments received from credit unions, assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to credit unions under a policy administered by the Corporation. A credit union may claim a maximum of \$100,000 for director's liability claims and \$85,000 for other claims, less its deductible, which is payable out of

the Master Bond Fund; a reinsurance policy insures the amount of the claim that exceeds \$100,000 or \$85,000, respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, interest income, premiums paid for the reinsurance policy, administration fee, and claims.

The Corporation may use all of its assets to support its primary objective.

(b) Use of Estimates

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance and the provision for (recovery of) financial assistance. The Corporation reviews these estimates annually. Actual amounts could differ from those estimates depending upon certain future events and uncertainties.

(c) Non-consolidation of S C Financial Ltd.

The financial statements of the Corporation's wholly owned company, S C Financial Ltd., have not been consolidated with these financial statements since increases or decreases in the equity of S C Financial Ltd. do not accrue to the Corporation.

(d) Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates.

(e) Investments

Investments are carried at cost or amortized cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Investments are written down when there is a decline in value that is other than temporary. Gains and losses realized on disposal of investments are included in interest revenue.

Notes to the Financial Statements

December 31, 1997

(f) Revenue Recognition

Interest revenue on loans receivable is recognized as earned unless the ultimate collectibility of the loan is in doubt. Where scheduled payments are greater than 60 days in arrears or less than 60 days in arrears and there is reasonable doubt as to the ultimate collectibility of the outstanding principal or interest, the loan is considered impaired. When a loan is classified as impaired recognition of interest income in accordance with the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan.

(g) Loans Receivable

Loans acquired to assist with mergers of credit unions are recorded at estimated net realizable value. The loans are purchased from credit unions at the principal amount outstanding less an allowance for loan impairment. Annually, management reviews the adequacy of the allowance for loan impairment on a loan by loan basis and adjusts the allowance to an amount considered adequate to provide for expected loan losses.

(h) Capital Assets

The following rates are designed to amortize the cost of capital assets over their estimated useful lives:

Furniture and equipment	5 year straight-line
Computer equipment	30% declining-balance
Computer software	1 year straight-line
Leasehold improvements	straight-line over lease term

(i) Insurance Claims

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported claims. It makes an additional accrual of the estimated losses from unreported claims based on the last three years' average actual loss experience.

(j) Accrual for Financial Assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for assistance becomes likely and it can reasonably estimate the amount.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the credit union system based on existing capital available in

individual credit unions, current market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the credit union system. Future economic conditions are not predictable with certainty and actual losses will vary from management's estimate.

(k) Fair Value of Financial Instruments

Most financial instruments are valued at their carrying amounts included on the balance sheet which are reasonable estimates of fair value. This approach applies to cash, accrued interest receivable, due from credit unions, loans receivable, prepaid expenses, accounts payable and accrued liabilities, accrual for financial assistance, deferred revenue, amounts due to and investment in S C Financial Ltd. The fair values of investments are disclosed in Note 5.

Note 3 Change in Accounting Policy

During the year, the Corporation retroactively changed its method of recording the Master Bond Fund assessments revenue and the bond premium. These are now accrued monthly rather than being recognized when levied during the year. As a result of this change, net income has been increased by \$76,000 for 1997 (1996 \$46,000); prepaid expenses have increased by \$545,000 (1996 \$512,000) and deferred revenue has increased by \$621,000 for 1997 (1996 \$558,000).

	1997	1996
<i>(thousands of dollars)</i>		
Master Bond Fund		
Equity at beginning of year:		
As previously reported	\$ 2,289	\$ 2,262
Prior period adjustment	<u>76</u>	<u>122</u>
As restated	\$ <u>2,213</u>	\$ <u>2,141</u>

Note 4 Capital Assets

	1997	1996
<i>(thousands of dollars)</i>		
Furniture and equipment	\$ 377	\$ 377
Computer equipment	268	269
Computer software	29	29
Leasehold improvements	<u>63</u>	<u>63</u>
	738	738
Less accumulated amortization	<u>628</u>	<u>617</u>
Net book value	\$ <u>110</u>	\$ <u>121</u>

Notes to the Financial Statements

December 31, 1997

Note 5 Investments

	Maturities			1997		1996	
	Within 1 Year	Over 1 to 5 Years	Over 5 to 10 Years	Carrying Value	Market Value ²	Carrying Value	Market Value ²
<i>(thousands of dollars)</i>							
Securities issued or guaranteed by:							
Canada	\$ -	\$ 10,897	\$ 31,123	\$ 42,020	\$ 42,545	\$ 46,809	\$ 48,159
Provinces	10,710	8,666	2,321	21,697	21,729	11,431	11,827
Notes and term deposits issued by financial institutions:	<u>-</u>	<u>3,516</u>	<u>-</u>	<u>3,516</u>	<u>3,490</u>	<u>-</u>	<u>-</u>
	<u>10,710</u>	<u>23,079</u>	<u>33,444</u>	<u>67,233</u>	<u>67,764</u>	<u>58,240</u>	<u>59,986</u>
Shares of Credit Union Central Alberta Ltd.	-	-	100 ¹	100	100	100	100
Shares of Co-operative Trust Company of Canada	<u>-</u>	<u>-</u>	<u>15 ¹</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>
Total	\$ <u>10,710</u>	\$ <u>23,079</u>	\$ <u>33,559</u>	\$ <u>67,348</u>	\$ <u>67,879</u>	\$ <u>58,355</u>	\$ <u>60,101</u>
Effective book yield	<u>4.83%</u>	<u>5.21%</u>	<u>5.85%</u>	<u>5.46%</u>		<u>6.48%</u>	

¹ These securities have no specific maturity.

² Market values were calculated by independent pricing sources and Canadian investment dealers.

The market value of the investment portfolio is subject to fluctuation as a result of normal market risk. The principal factor influencing the market value is the prevailing rate of interest. An increase of 1% in interest rates will result in a decrease of approximately \$651,674 (1996 \$579,017) in the market value of the investment portfolio; and conversely, a decrease of 1% in interest rates will result in an increase in the market value of the same amount.

Note 6 Accrual for Financial Assistance

To fulfill the mandate described in Note 1, the Corporation assists credit unions experiencing financial difficulties when and as required. The Corporation monitors certain other credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance the amount of which, if any, is undeterminable at this time.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

	1997	1996
<i>(thousands of dollars)</i>		
Accrual for financial assistance:		
Balance, beginning of year	\$ 6,100	\$ 6,117
Provision for loss	(235)	-
(Paid) during year	<u>-</u>	<u>(17)</u>
Balance, end of year	\$ <u>5,865</u>	\$ <u>6,100</u>
(Recovery of) financial assistance:		
Provision for loss	\$ (235)	\$ -
Recoveries	<u>(22)</u>	<u>(26)</u>
Provision for (recovery of) financial assistance	\$ <u>(257)</u>	\$ <u>(26)</u>

Notes to the Financial Statements

December 31, 1997

Note 7 Recovery of Special Assistance

In 1989, the Corporation provided deficit funding assistance to supervised credit unions totalling \$12,524,000. It may recover portions of this funding based on a percentage of the credit unions' annual net income. The credit unions repaid \$90,000 during the year and \$2,430,000 to date.

Note 8 Amounts Due to and Investment in S C Financial Ltd.

	1997	1996
	<i>(thousands of dollars)</i>	
Special contribution	\$ 4,912	\$ 4,652
Advances	<u>(21)</u>	<u>(21)</u>
	4,891	4,631
Shares	<u>(1)</u>	<u>(1)</u>
Balance, end of year	\$ <u>4,892</u>	\$ <u>4,630</u>

The special contribution is an annual amount payable by the Corporation under the Credit Union Restructuring Agreement. It is equal to 0.11% of credit union deposits and borrowings and is payable to S C Financial Ltd., as directed by the Province, until the year 2010.

Note 9 Commitments and Contingencies

(a) Financial assistance commitments

As part of an amalgamation arrangement between two credit unions, the Corporation is required to provide financial assistance in an amount not to exceed \$1,357,000. An amount will be paid annually based on 50% of the annual net income of the credit union. These payments do not commence until after the amalgamated credit union redeems Stabilization Preferred Shares in the amount of \$372,000. It is not possible at this time to determine the amount of the liability that may result from the commitment by the Corporation to make the payments.

(b) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises totalling \$539,000.

The following amounts represent minimum payments over the next four years:

1998	\$ 167,000
1999	170,000
2000	173,000
2001	29,000

(c) Litigation

There are legal proceedings pending against the Corporation which arise from usual business activities. Management of the Corporation believes that the resolution of these proceedings will not be material to the financial position of the Corporation.

Note 10 Income Taxes

The Corporation is a deposit insurance corporation for income tax purposes. Its income for tax purposes excludes assessments and no deduction may be made against income for tax purposes for financial assistance paid on behalf of member credit unions. Income taxes are provided for at a rate of approximately 28% of earnings subject to tax. The Corporation's 1997 tax provision amounting to \$596,000 was reduced \$70,000 by claiming excess capital cost allowance.

At December 31, 1997 the Corporation had tax values of capital assets in excess of related book values of approximately \$795,000. The tax benefit of the excess of tax values is not reflected in these financial statements.

Note 11 1997 Budget

The 1997 budget was approved by the Board of Directors on September 24, 1996.

Note 12 Comparative Figures

The 1996 figures have been restated where necessary to conform to 1997 presentation.

Note 13 Approval of Financial Statements

The Board of Directors has approved these financial statements.

Schedule of Administration Expenses

For the Year Ended December 31, 1997
(thousands of dollars)

	1997	1997	1996
	Budget	Actual	Actual
Deposit Guarantee Fund			
Salaries and benefits (Schedule 2)	\$ 2,140	\$ 2,062	\$ 1,850
Rental charges	164	157	174
Board and committee fees (Schedule 2)	121	76	97
Board and committee expenses	15	14	10
Staff travel	258	132	138
Office	112	101	89
Amortization	68	43	46
Professional fees	122	76	62
Data Processing	20	14	17
Other	<u>86</u>	<u>55</u>	<u>61</u>
	3,106	2,730	2,544
Allocation to Master Bond Fund	<u>(150)</u>	<u>(150)</u>	<u>(175)</u>
	\$ <u>2,956</u>	\$ <u>2,580</u>	\$ <u>2,369</u>

Schedule of Salaries and Benefits

For the Year Ended December 31, 1997

Position or Group	1997				1996	
	Number of Individuals	Salary ¹	Benefits ²	Total	Number of Individuals	Total
	(thousands of dollars)				(thousands of dollars)	
Chair ⁵	1	\$ 40	\$ -	\$ 40	1	\$ 51
Board Members ⁵	<u>6</u>	<u>36</u>	<u>-</u>	<u>36</u>	<u>6</u>	<u>46</u>
Total Fees	<u>7</u>	<u>\$ 76</u>	<u>\$ -</u>	<u>\$ 76</u>	<u>7</u>	<u>\$ 97</u>
Chief Executive Officer ⁴	1	\$ 122	\$ 19	\$ 141	1	\$ 134
Senior management:						
Chief Financial Officer ⁴	1	85	16	101	1	100
Senior Manager, Operations	1	69	8	77	1	77
Senior Manager, Credit	1	71	9	80	1	84
Senior Manager, Credit	-	-	-	-	1	65
Manager, Examinations	1	58	8	66	1	63
Other managers (average 1997 \$66, 1996 \$64)	9	530	66	596	9	576
Other full-time staff (average 1997 \$40, 1996 \$40)	23	804	126	930	23	921
Part-time and casual staff	<u>2</u>	<u>78</u>	<u>8</u>	<u>86</u>	<u>2</u>	<u>49</u>
	<u>39</u> ³	<u>\$ 1,817</u>	<u>\$ 260</u>	<u>\$ 2,077</u>	<u>40</u> ³	<u>\$ 2,069</u>
Accruals not specifically allocated, net of deduction for total professional memberships, automobile allowance and tuition included in benefits above				<u>(15)</u>		<u>(219)</u>
Total salaries and benefits expense				\$ 2,062		\$ 1,850

¹ In accordance with the directive of the Province of Alberta Treasury Board pursuant to the Financial Administration Act (Alberta). Salaries or fees include regular base pay and overtime or director fees.

² Benefits include contributions for Canada Pension Plan, Employment Insurance, Group Registered Retirement Savings Plan, Group Life Insurance, dental coverage, medical benefits, staff fund, automobile allowance, professional memberships, tuition and vacation payouts.

³ Represents full-time equivalent for the year.

⁴ The benefits figure includes an automobile allowance which replaced the previously provided automobile.

⁵ The Chairman and Board Members are part-time positions. The Deputy Provincial Treasurer is a Board Member but received no remuneration from the Corporation.

Board of Directors & Committees

Board of Directors

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

Bob Splane, Chair
A Corporate Director
Boyle, Alberta

Mary Arnold, FCA, Vice Chair
Arnold Consulting Group Ltd.
Edmonton, Alberta

Bob Campbell
The nominated representative from the credit union system and a former General Manager of Parkland Savings & Credit Union Ltd.,
Red Deer, Alberta

Ron Gilmore, CMC
Management Consultant
Gilmore Systems Ltd.
Calgary, Alberta

John Henry
A retired Bank Executive
Calgary, Alberta

Rod McDermand
A Corporate Director
Alix, Alberta

Al O'Brien
Deputy Provincial Treasurer
of the Province of Alberta,
Edmonton, Alberta

Committees

AUDIT (Committee of the Board)

This committee acts as a bridge between the Board of Directors and the auditors in overseeing the financial reporting content and process, the appropriate systems of internal control, and the independent audit processes (subject to the Auditor General Act). The functions of this committee are set out in section 86 of the Credit Union Act. The committee also reviews the systems of internal control to ensure compliance with legal, ethical and regulatory requirements and effectiveness.

M. Arnold, *Chair*
R. Gilmore
R. McDermand
A. O'Brien
B. Splane

FINANCE (Committee of the Board)

This committee monitors the financial performance of the Corporation and reports to the Board of Directors. The functions of this committee are set out in Section 80 of the Credit Union Act. The committee also approves certain expenditures as assigned by the Board and recommends financial policies of the Corporation.

M. Arnold, *Chair*
R. Gilmore
R. McDermand
A. O'Brien
B. Splane

CREDIT

The main function of this committee is to establish loan approval limits for each credit union and approve loans of credit unions which exceed these limits and the authority levels delegated to officers of the Corporation. This committee also monitors the Corporation's Credit Department lending approval function and the administration of those loans acquired from credit unions to ensure sound lending principles are maintained.

J. Henry, *Chair*
M. Arnold
B. Campbell
B. Splane
J. Laitner

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